



The Role and Impact of Low Cost Carriers

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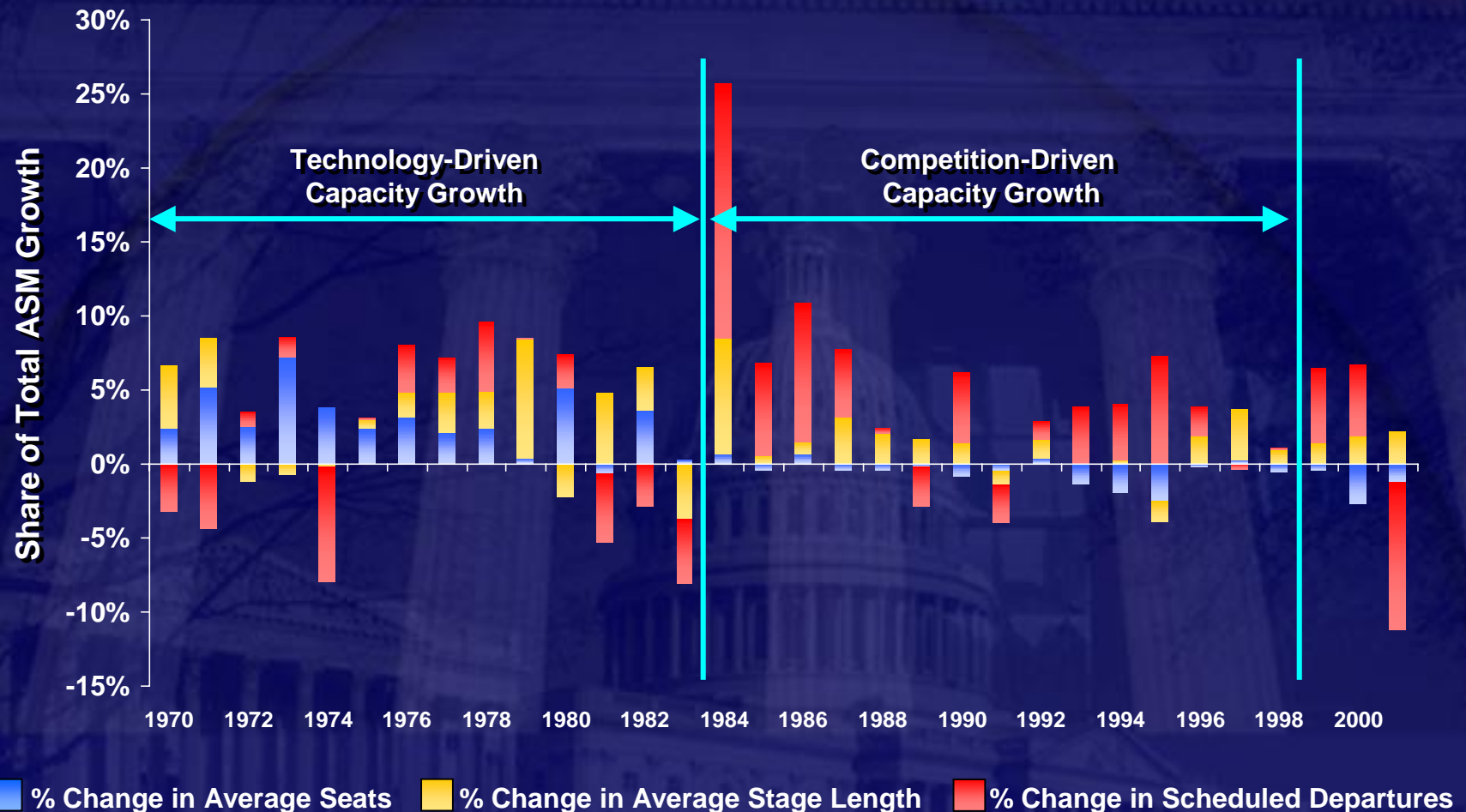
Introduction and Topics to be Covered



- Low Fare/Niche segment is less of a topic without the deterioration of profitability that began in 1998, and the market opportunities presented after 9/11.
- Each of the network carriers placed a capacity reduction bet on 9/12: How much was too much – how little was too little?
 - Either way, the low cost segment had/has a solid platform to grow from.
- The cuts in the West would appear to only make a bad situation for the network carriers grow worse.
- Low Fare/Niche carrier growth has continued to penetrate the largest U.S. markets, and no region of the U.S. is immune.
- The RJ is the low cost growth vehicle for the network carriers – Let's just call a spade a spade.

15-Year Cycles; 15-Year "Bubbles"

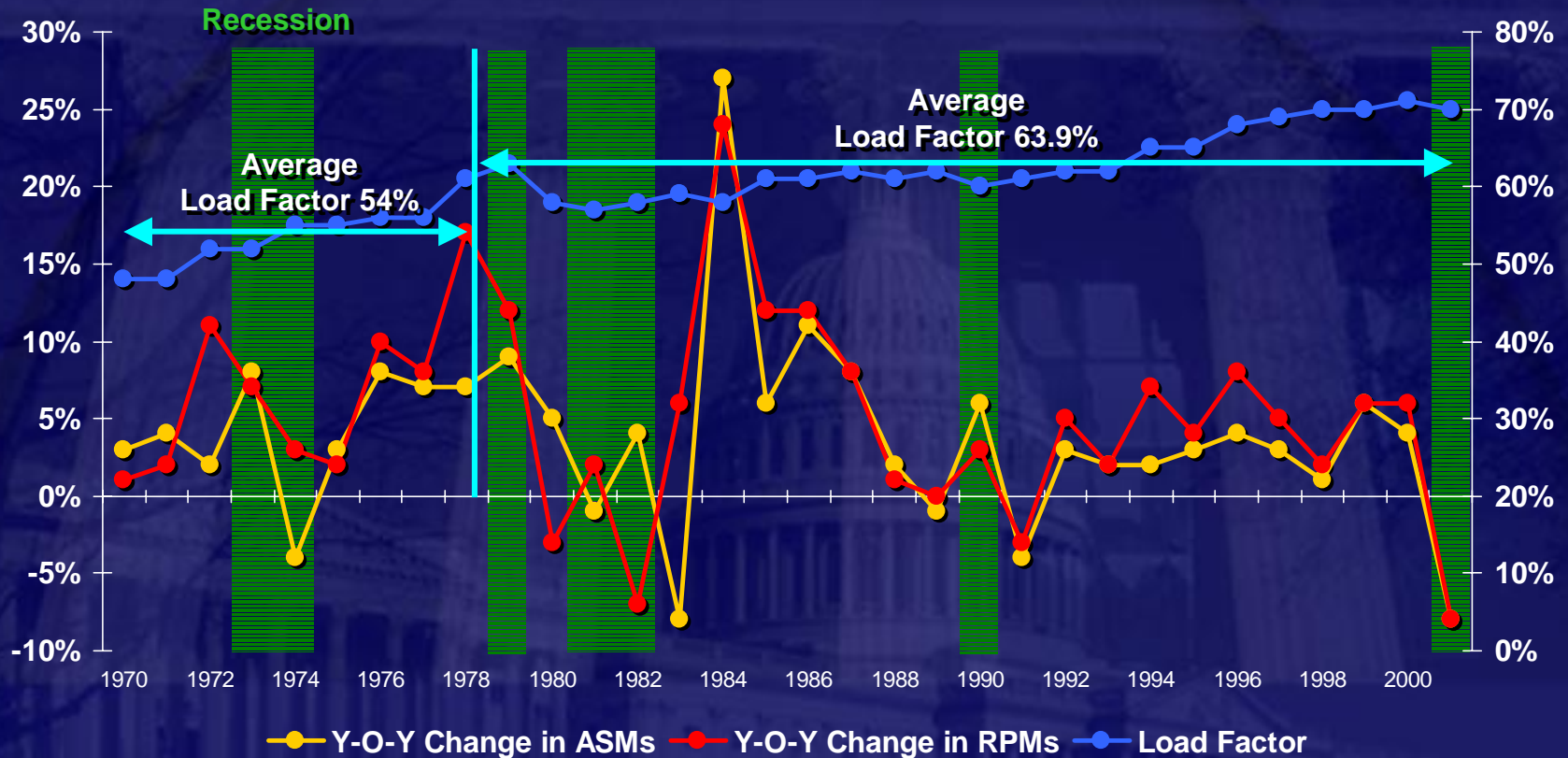
The Low Fare/Niche-Oriented Carriers and Regional (Small) Jets Have Already Begun Redesigning the New Competitive Landscape



Where Has the Revenue Gone?



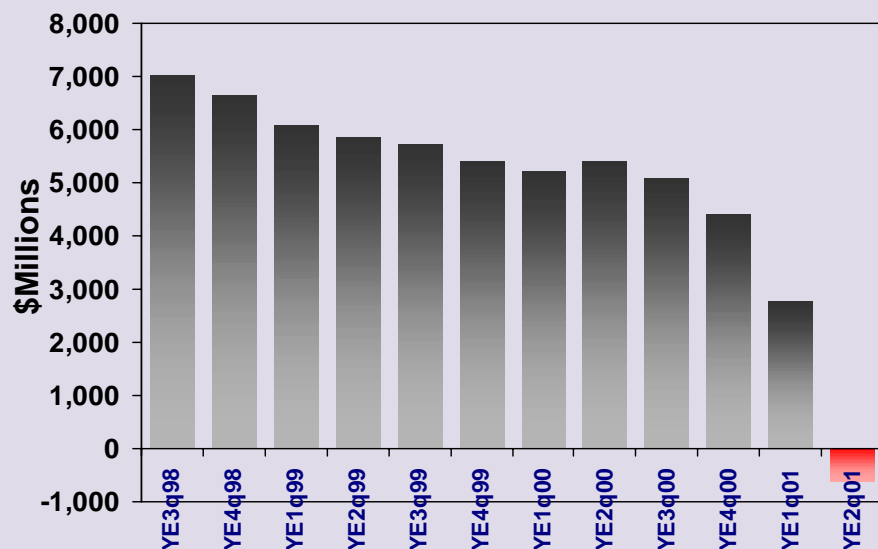
U.S. Scheduled Airlines' Domestic Operations



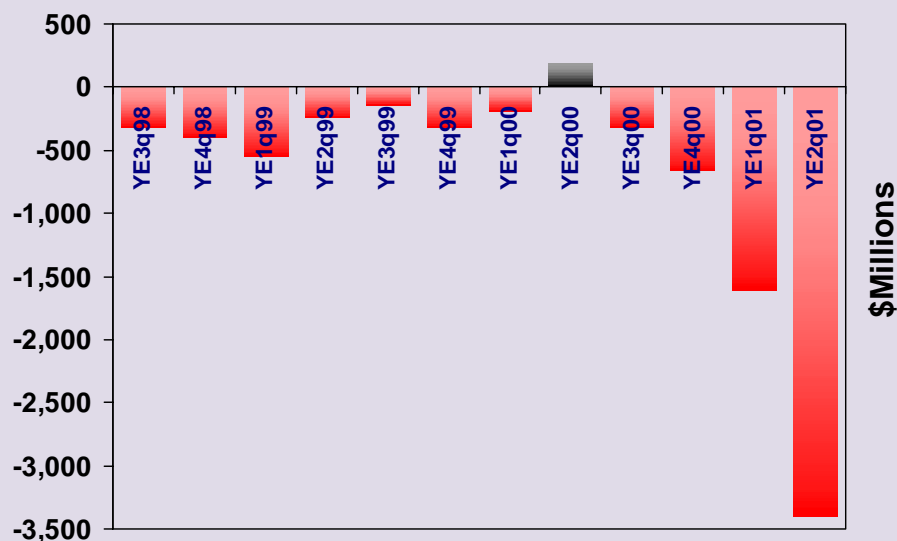
Deterioration of the Network Carriers' Profitability Began as Early as 1998



**Network Carrier Operating Profits
12 Months Moving Total**



**Sequential Change in Network
Carrier Operating Profits
12 Months Moving Total**



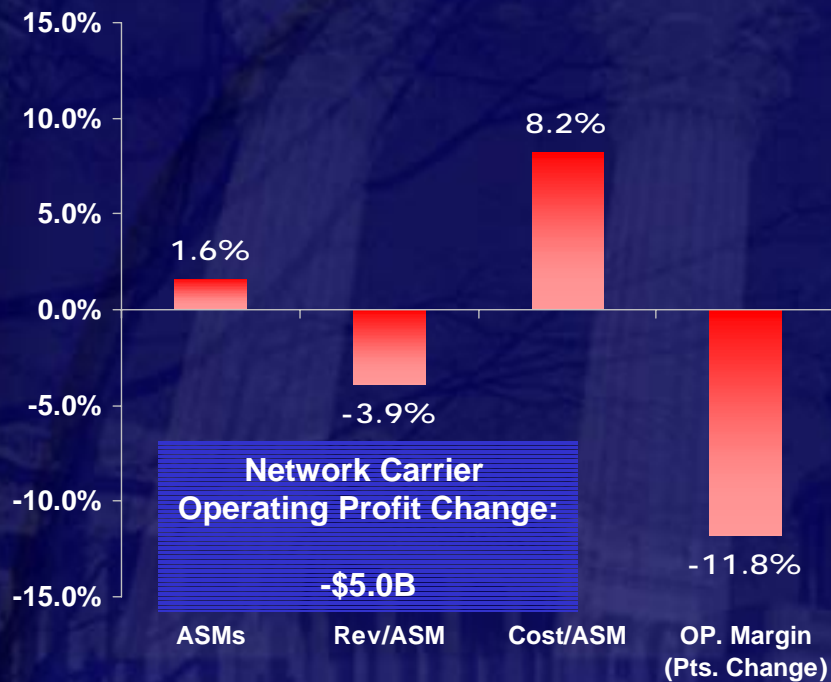
The Underlying Economics Have Not Favored the Network Carrier Segment for Sometime – Overcapacity?



Critical Indices Underlying the Industry's Operating Performance

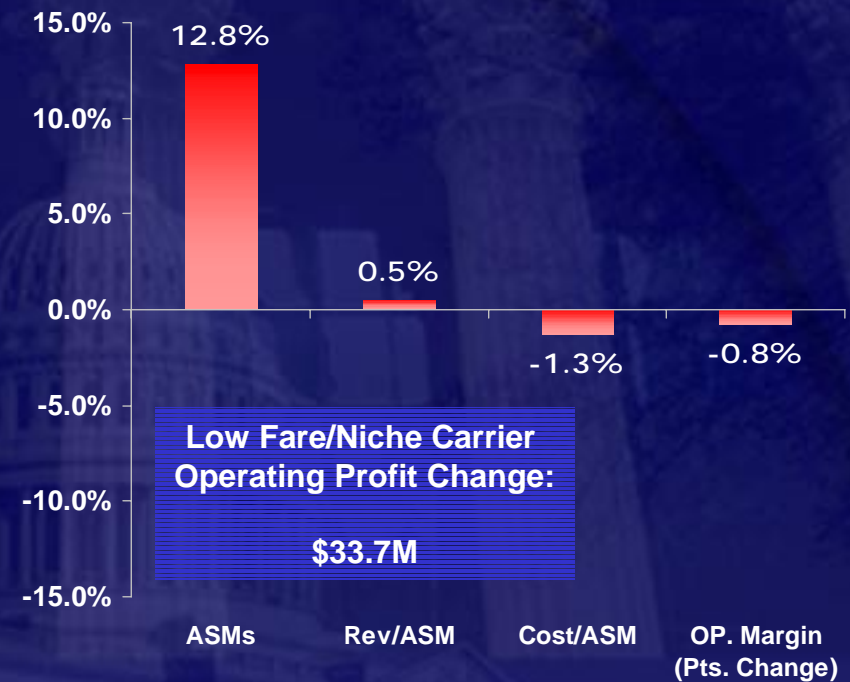
Network Carriers

Percent Change
1st Half 2001 vs. 1st Half 2000



Low Fare/Niche Carriers

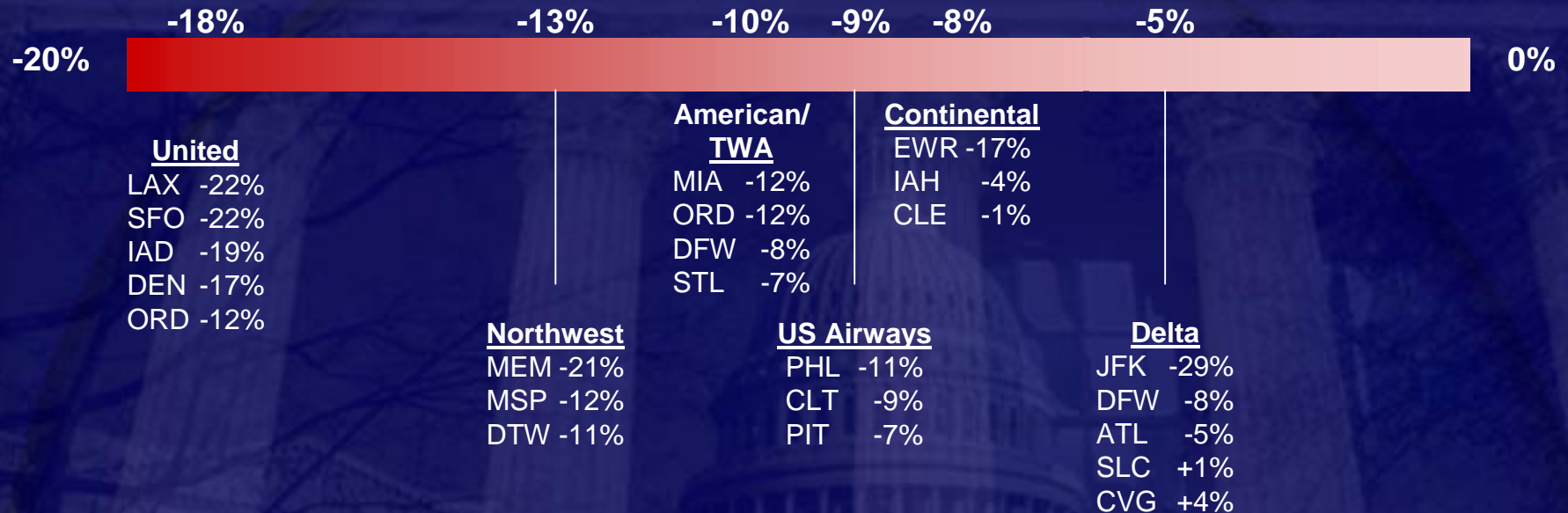
Percent Change
1st Half 2001 vs. 1st Half 2000



Note: Network carriers include American/TWA, America West, Continental, Delta, Northwest, United, and US Airways.

Note: Low Fare/ Niche carriers include Alaska, JetBlue, Frontier, AirTran, Spirit, American Trans Air, Southwest, and Midwest Express.

Assessing the Network Carrier Response: Which Hubs and Network Carriers Cut the Deepest Immediately Following 9/11?



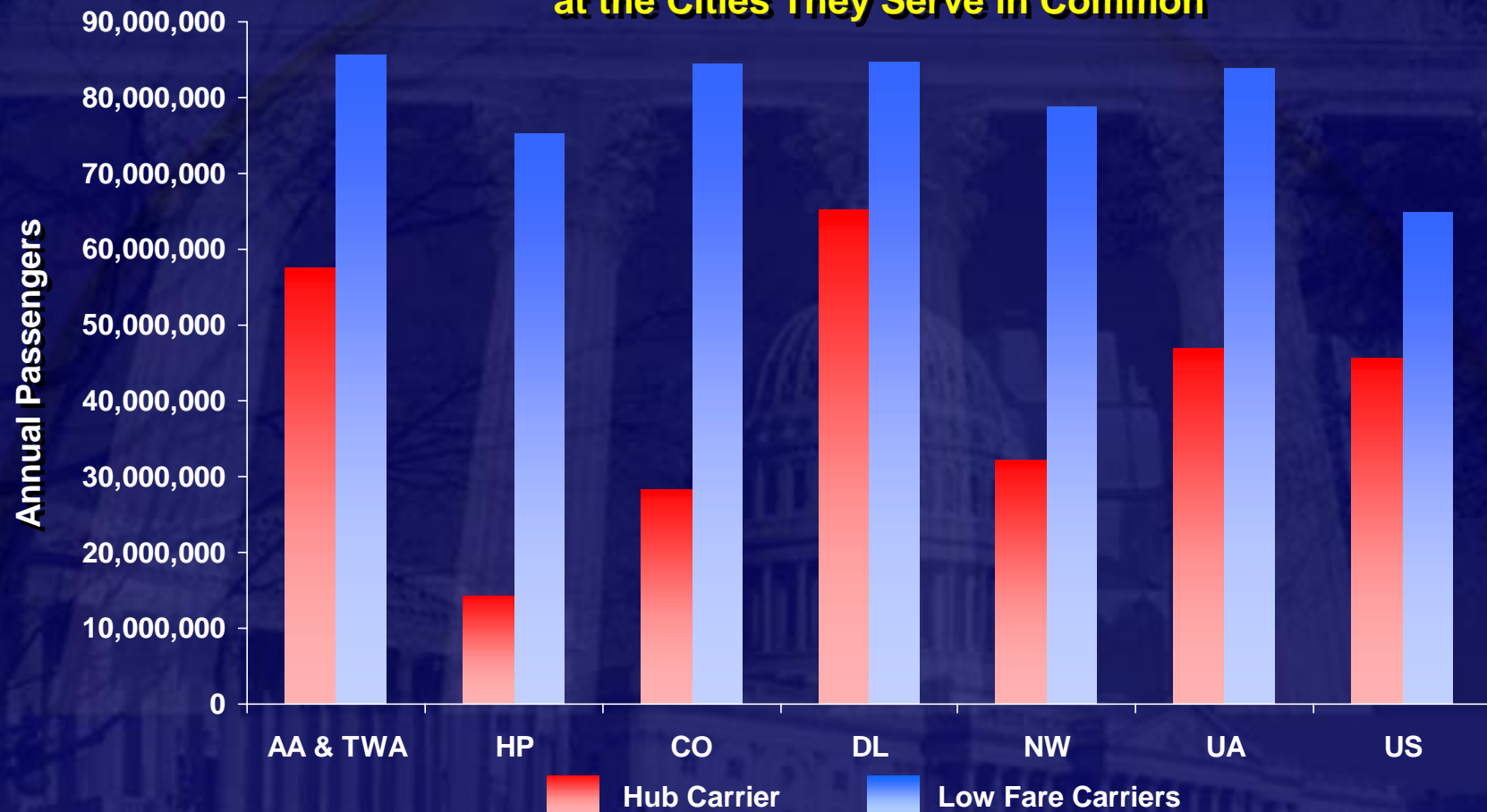
Note: Changes in carrier service reflect total; changes in hub service reflect nonstop only.

Source: Eclat Air Service Model, November 2001 vs. September 10, 2001

A Competitive Reality – The Low Fare Carriers Had Built a Strong Base of Traffic Prior to 9/11 ...



Low Fare Carriers Out-Carry Every Major Network Carrier at the Cities They Serve in Common



The Reality – Low Fare Carrier Penetration Has Pierced Many of the Network Industry Strongholds

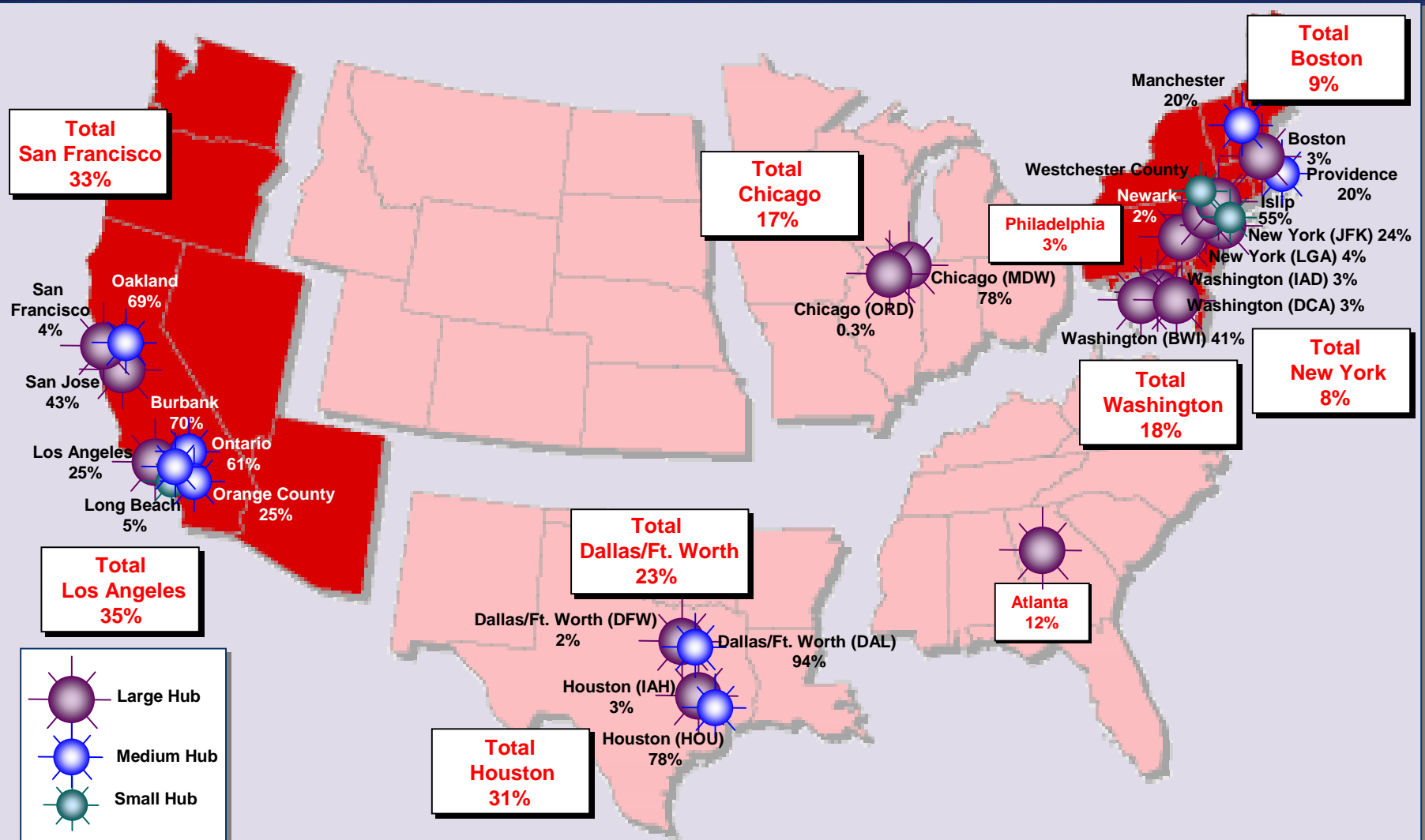


Core 48 State Cities Served by Low Fare Carriers*

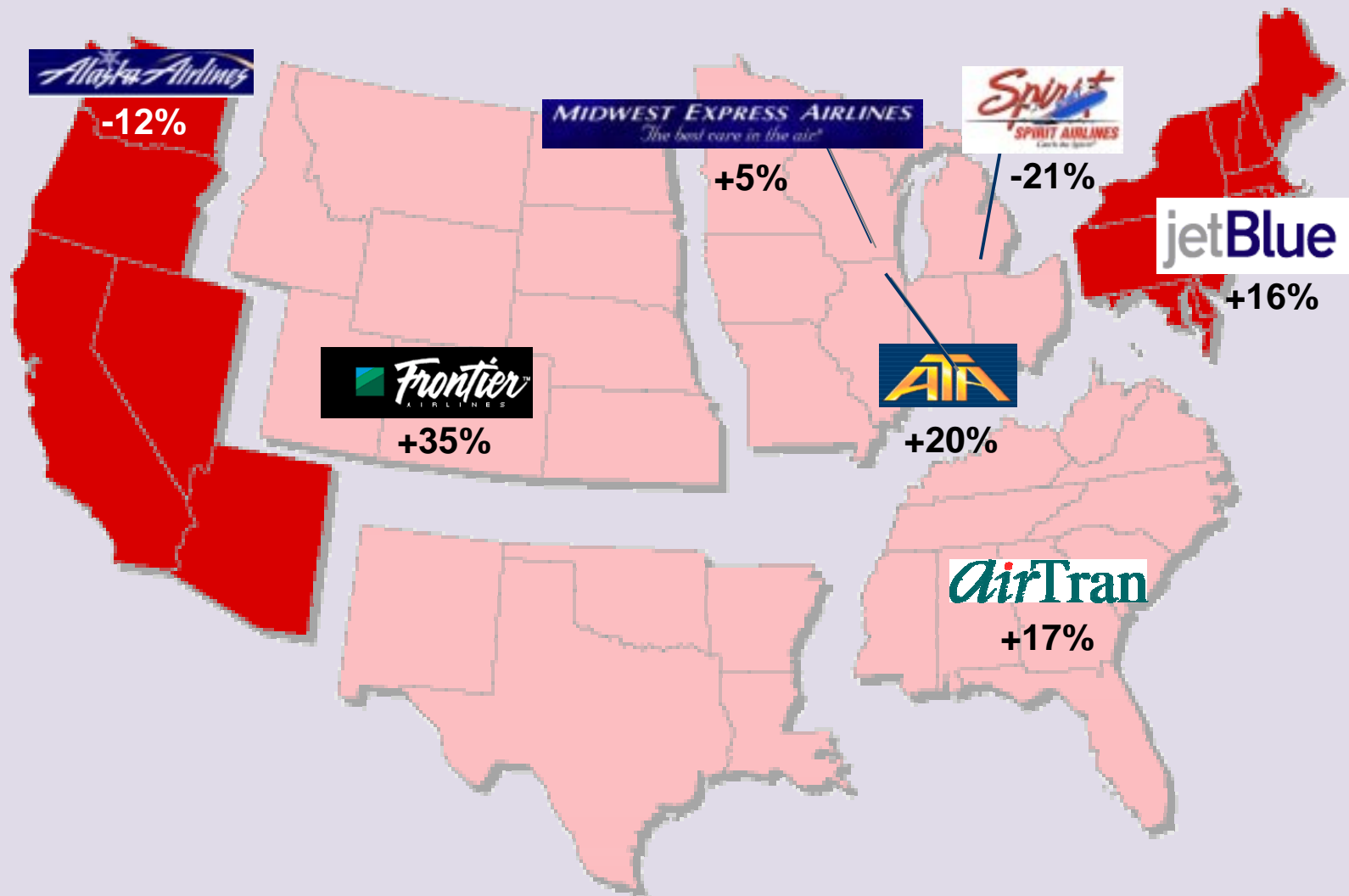
	1997 (89 Cities) PDEWs	2001 (82 Cities) PDEWs	4-Year Growth Percent
All Network Carriers Average	7,073	7,660	8.2%
Low Fare Carriers Average	1,787	2,610	46.1%

* Cities with at least 20 PDEWs for Low Fare Carriers

Low Fare Penetration in Top 10 CMSA Markets – Note the Migration from West to East



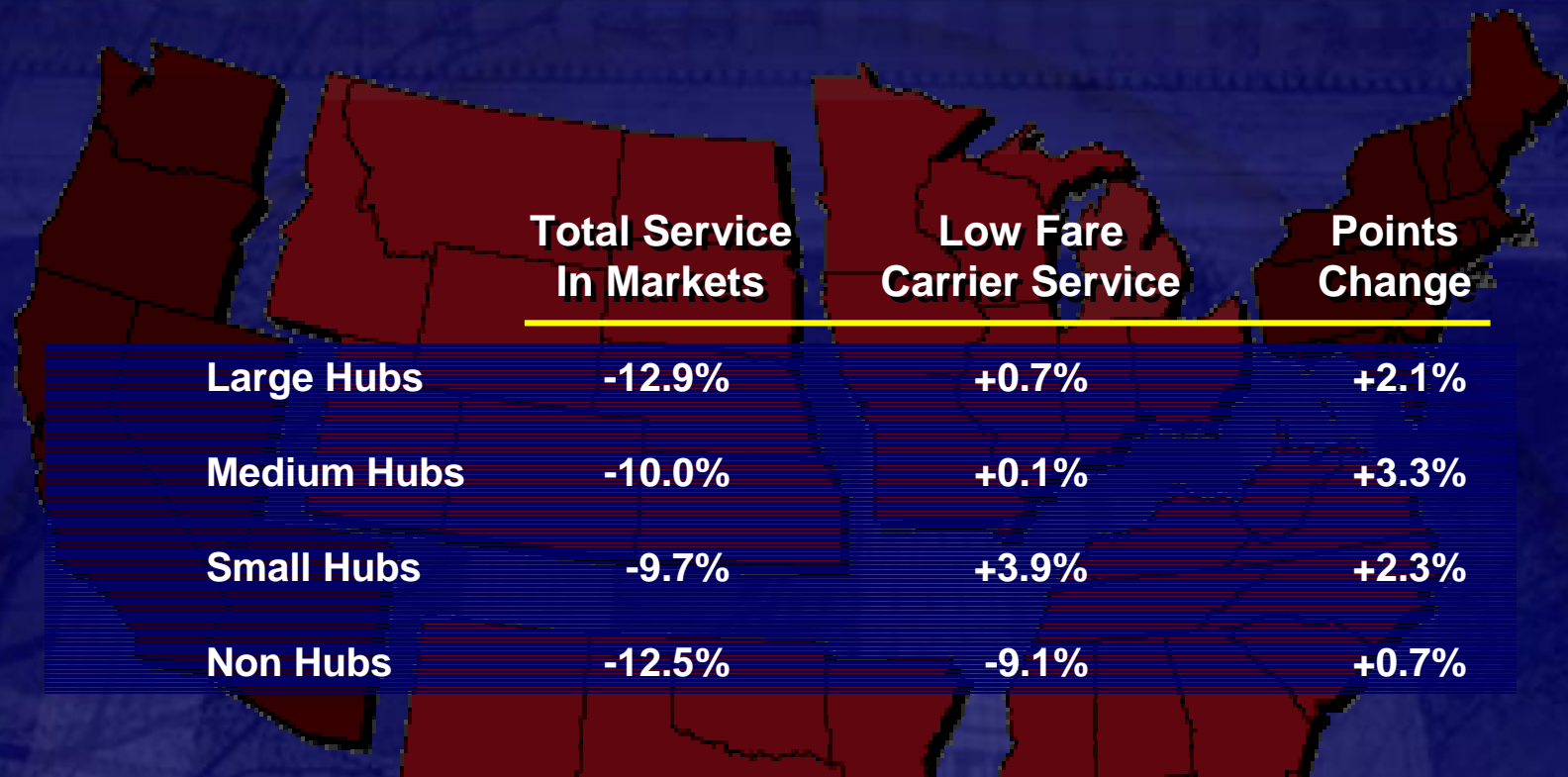
The Low Fare/Niche Carrier Segment: They Keep Growing – Because They Can ...



A Constant Reminder:
IT Keeps Growing – Because IT Can ...

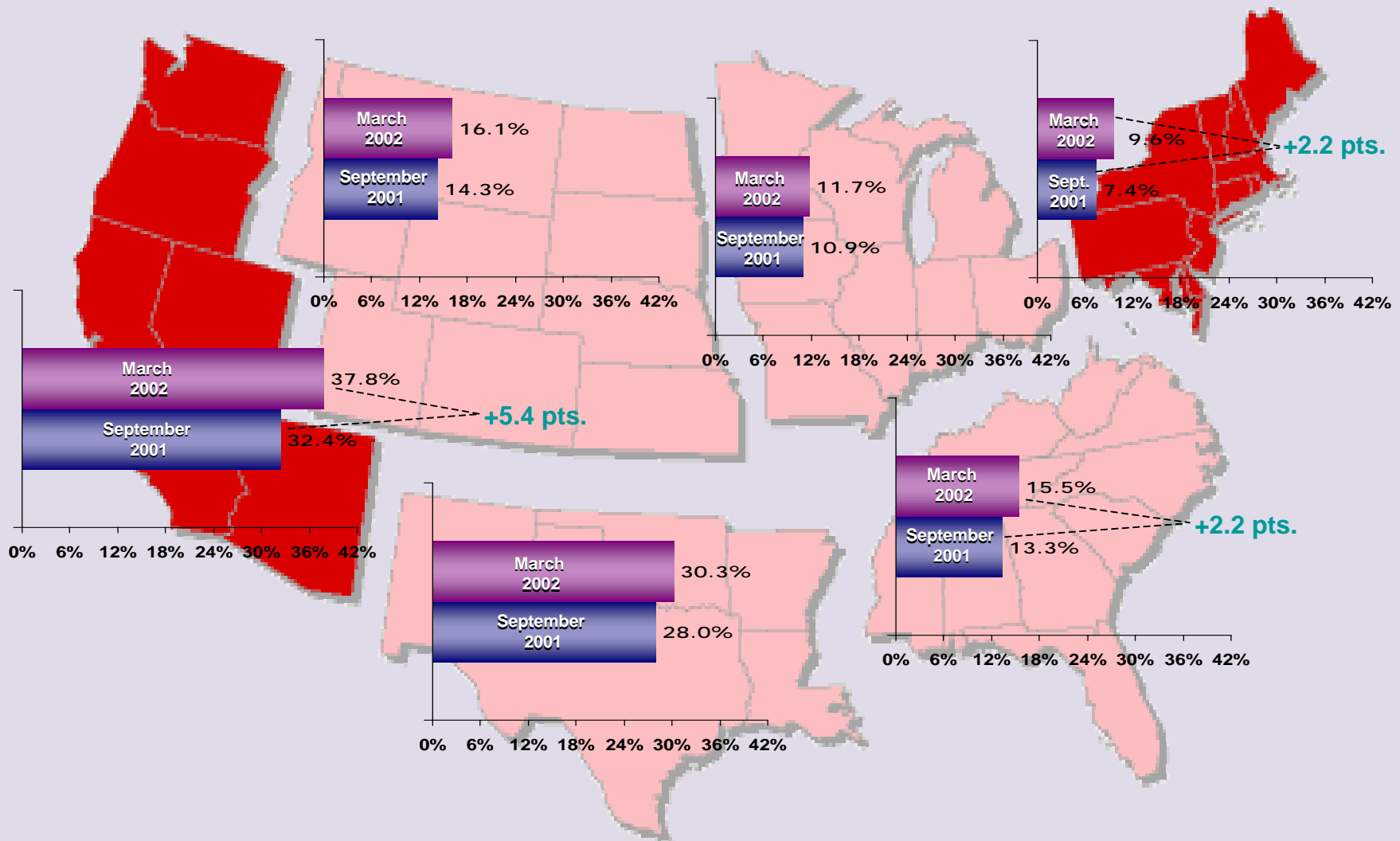


Low Fare Carrier Market Penetration Has Been Greatest in the Largest U.S. Markets Since 9/11



We estimate that the Low Fare/Niche carrier segment of the industry has captured 2.4 points of domestic market share in the past 6 months

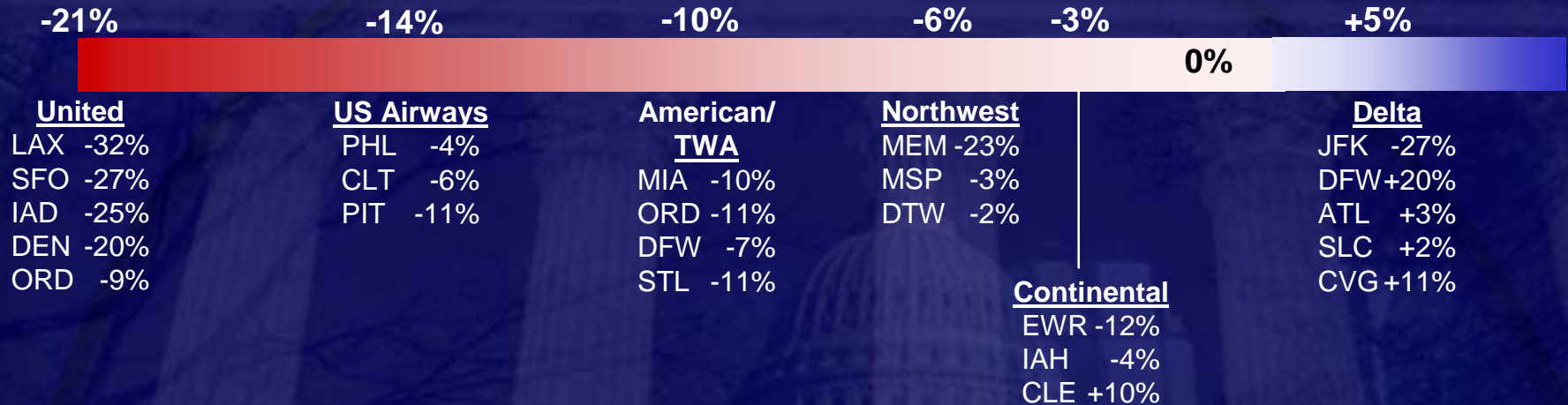
The Low Fare/Niche Carrier Segment of the Industry Has Increased Its Share of Service in Every U.S. Region Since 9/11



Capacity Growth by the Low Fare/ Niche Carrier Segment is Forcing the Hand of the Network Carriers



The Difference Between Capacity Reductions and Network Effect is Evident



Note: Changes in carrier service reflect total; changes in hub service reflect nonstop only.

Source: Eclat Air Service Model, March 2002 vs. September 10, 2001

Network Carrier Exposure to Low Fare Carrier Competition Generally, and Southwest Specifically



Increased Exposure Since 9/11

Delta

American

US Airways

Decreased Exposure Since 9/11

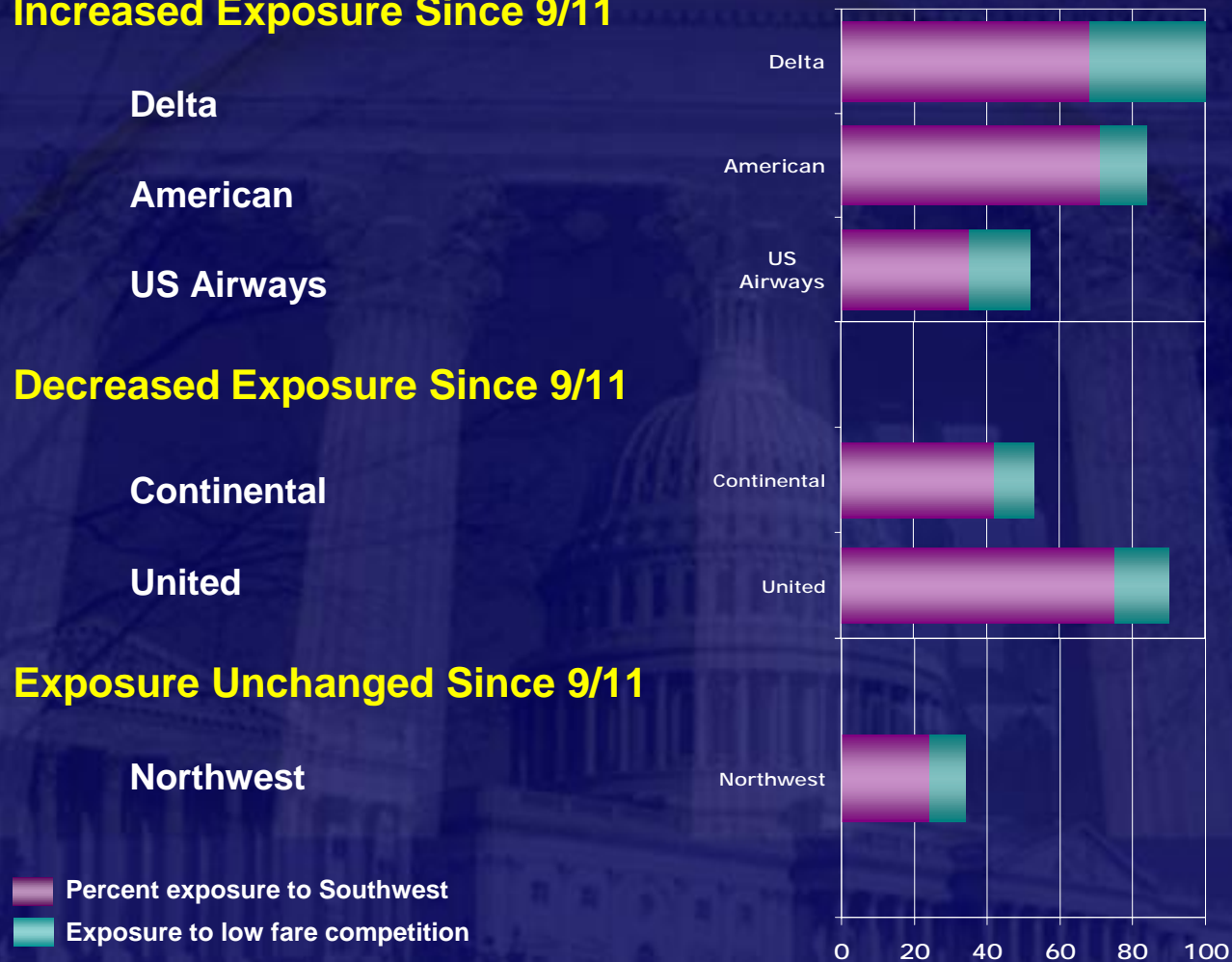
Continental

United

Exposure Unchanged Since 9/11

Northwest

Low Fare Index (Delta = 100)



The background of the slide is a dark blue, semi-transparent image of the United States Capitol building in Washington, D.C. The building's iconic dome and classical columns are visible, though the image is faded and serves as a backdrop for the text.

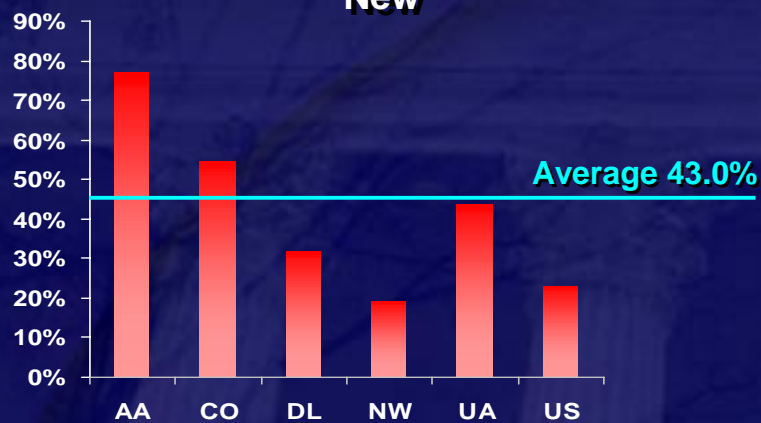
The Network Carriers' Low Cost Competitive Weapon

How the Network Carriers Utilize Their Respective Regional Jet Fleets

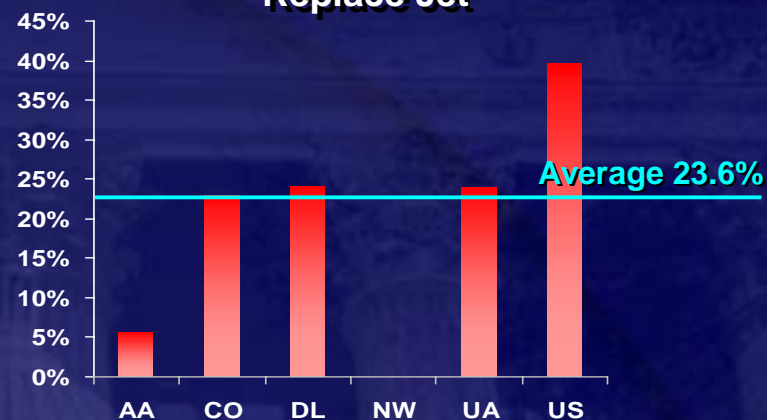


1st Quarter 2002 vs. 2nd Quarter 1996

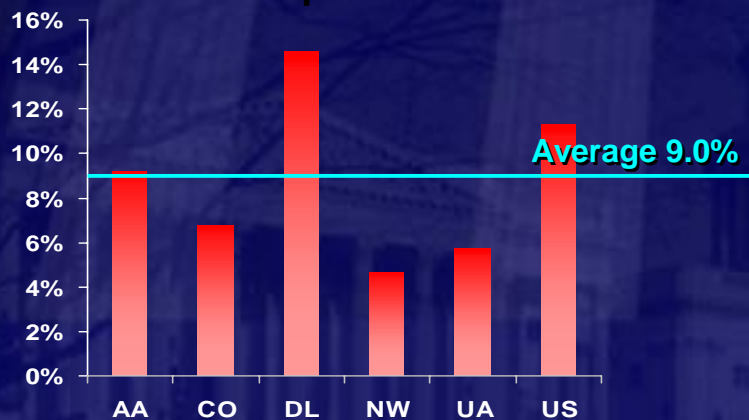
New



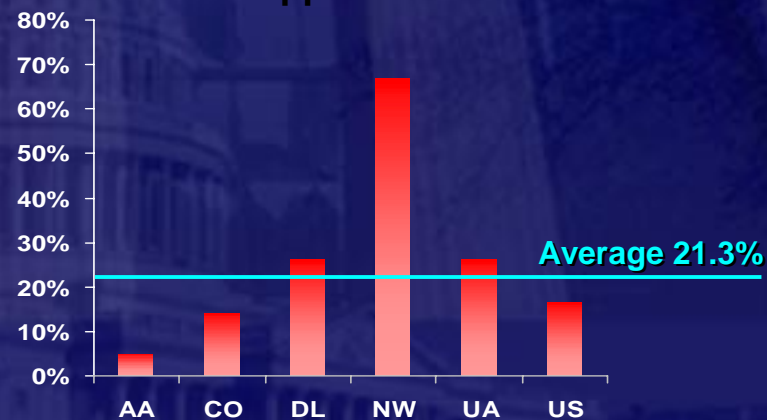
Replace Jet



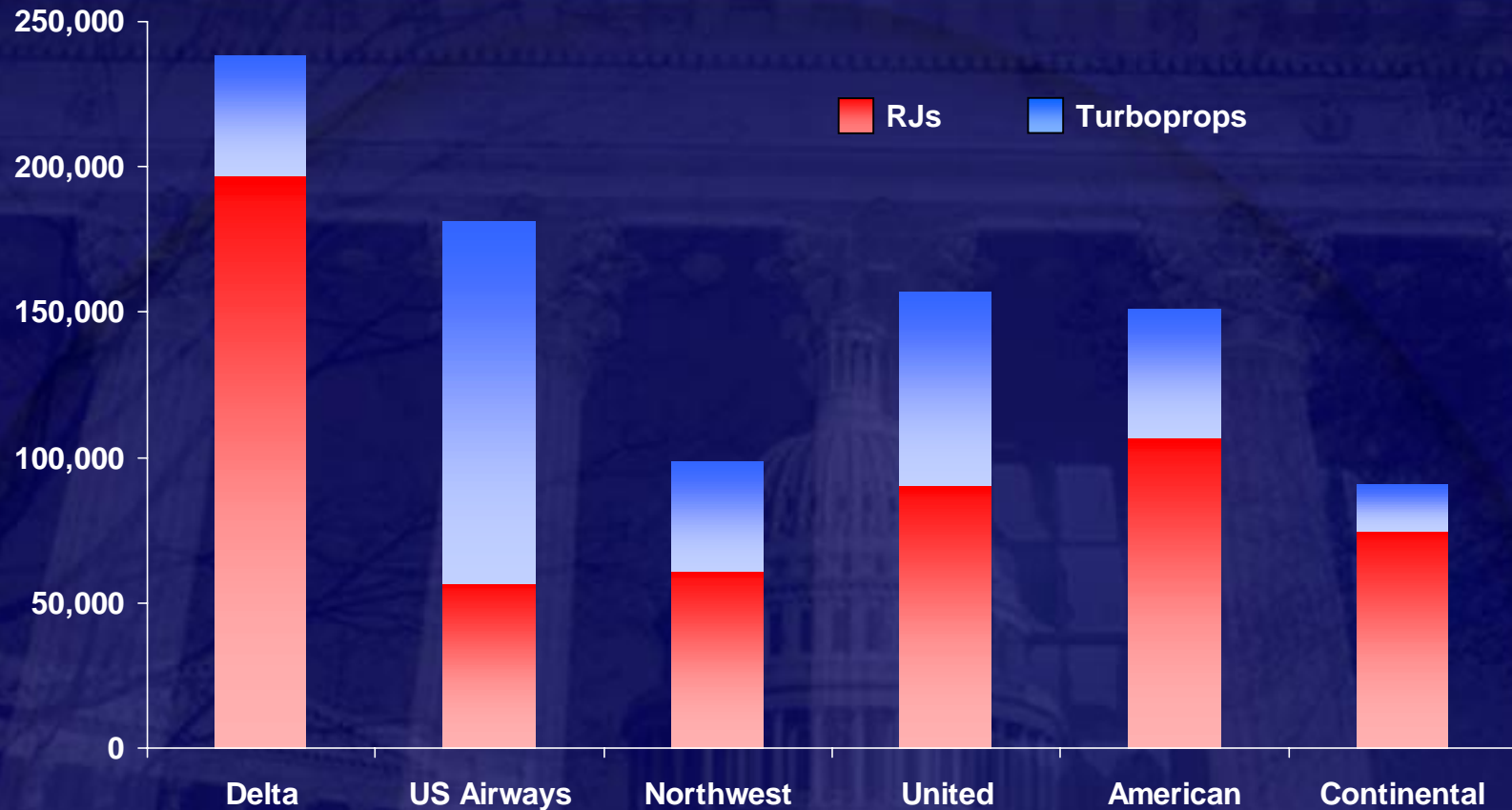
Replace Turbo



Supplement Jet



Regional Jet Contribution to Mainline Network – Nearly Everyone Uses Them Differently



Revenue:
(\$ Billions)

Delta

\$3.3

US Airways

\$1.8

Northwest

\$0.7

United

\$1.6

American

\$2.0

Continental

\$1.6

Network Presence:

64%

73%

91%

35%

45%

63%

Regional Contribution:

64%

65%

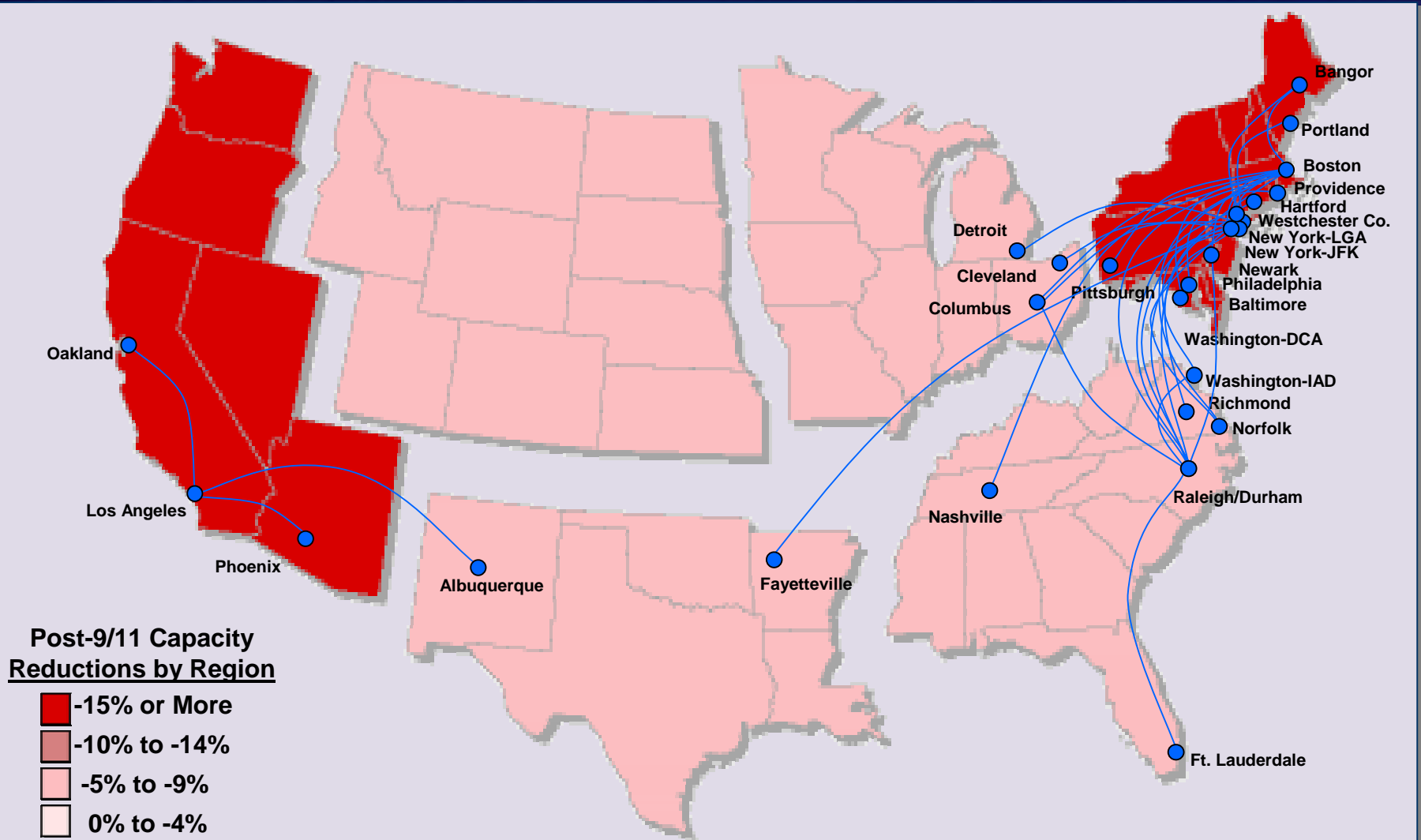
64%

79%

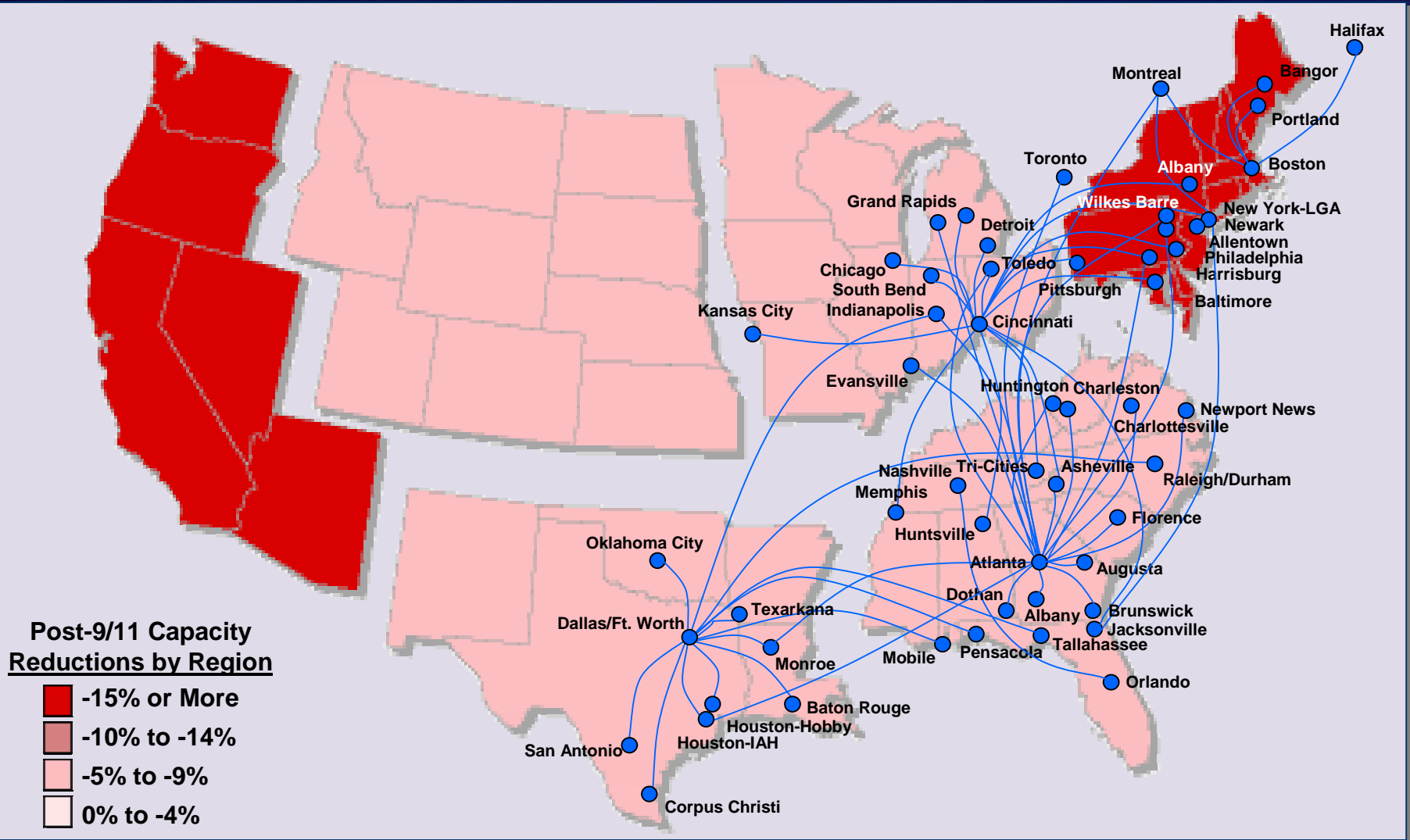
90%

77%

American's Non-Hub Flying With RJs – Non-Mainline Markets With Strategic Value to the Overall Network



Deployment of RJ Capacity Since 9/11 – Is This US Airways' Network or Delta's?



Conclusions/Questions



- **Over the most recent past, the Low Cost/Niche carriers have measurably increased their share of the domestic market. In just the past six months, they have potentially increased their share 2.5 points.**
- **The network carriers' fear of significant encroachment is underscored by the capacity expansions announced by the largest carriers.**
- **The influence of the low cost carriers in the West was significant, and further inroads have been made since 9/11.**
- **Likewise, the low fare segment has increased its presence significantly along the East Coast over the past six months – a trend that will continue.**
- **Also, the growth of the mid-continent hubs by the low fare segment should be a concern, as pricing discipline will only increase. This growth will undermine pricing in the transcon market, which will be an important footnote in a bankruptcy filing or a loan guarantee application.**



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